National Aeronautics and
Space Administration

Office of the Administrator
Washington, DC 20546-0001

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TO: Officials-in-Charge of Headquarters Offices
Directors, NASA Field Installations
Director, Jet Propulsion Laboratory

FROM: A/Administrator

SUBJECT: Performance-Based Contracting

A thorough Performance-Based Contracting (PBC) awareness program has been conducted throughout the Agency. Through senior and working level meetings, video teleconferences, visits, and presentations at all Centers, we reached out to NASA and contractor employees to spread the word about what PBC is, why we need to implement PBC, and our commitment to its success. In order to make good on our promise to give the American public maximum results for their money, I need your total support for the implementation of the principles of PBC at NASA.

Enclosed is a white paper which summarizes how the PBC initiative should be implemented at NASA. Please read it and begin implementing PBC immediately, according to the direction set out in this white paper. Direct any questions to Ken Sateriale, (202) 358-0491.

Daniel S. Goldin

Enclosure:
PBC White paper

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Engineering Management Council Members

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Performance-Based Contracting

DEFINITION: Performance-Based Contracting (PBC) is contracting for results, not just best efforts. PBC means structuring all aspects of an acquisition around the purpose of the work to be performed. PBC techniques include: using objective, measurable performance requirements and quality standards in developing statements of work; selecting contractors using performance as a consideration; determining contract type and incentives in accordance with a fair assessment and assignment of performance risk; and performing contract surveillance and administration for insight only into essential areas of contractor performance, and mindful of the need for conservation of Government resources. For a contract to be considered as PBC, it cannot be: level-of-effort (either fixed-price or cost reimbursement), Time and Materials, or have a design or detail specification. Finally, a PBC contract must have performance standards (criteria for determining whether the work requirements are met), and some kind of contract performance incentive, positive or negative, explicit or implicit.

BACKGROUND: Historically, NASA contracted for *support* of its activities. The contracts would specify a level-of-effort to be provided rather than specifying results to be achieved. However, there are numerous problems with that approach: a) it provides no incentive for contractors to be innovative; b) it is uneconomical for the Government because it hires a "marching army" of contractors for a term of employment, instead of contracting for a job to be completed; c) it may foster a personal services environment wherein NASA is perceived as the "employer" who supervises the efforts of the contractor "employees"; d) it can contribute to a breakdown of project discipline. (When the Project Office becomes concerned with how to keep the contractor busy, unplanned and often unnecessary "extras" may be added to the contractor's tasking.); e) it creates the opportunity for unnecessary enrichment of the labor skill mix, thereby driving up labor costs; and, f) it requires the Government to perform extensive surveillance because, absent clearly stated contract objectives, the contractor must receive continual clarification from Government technical representatives.

CATEGORIES OF PBC CONTRACTS: There are two categories of PBC contracts: contracts for services of a routine nature; and contracts of a non-routine nature, such as supplies, engineering or unique services including studies, reports, and analyses, or research and development (R&D). The Office of Federal Procurement Policy (OFPP) performance-based pilot service contract initiative applies primarily to the first category since it is a controlled before and after study of recurring services. OFPP's overall performance-based contracting effort applies to both categories, as does the NASA PBC initiative. In contracting for services of a routine nature, whether they be high or low "tech", (e.g. computer services, facilities maintenance, janitorial services, guard services, etc.) it is essential to avoid underspecifying the Government's contractual requirements. Firm-fixed-price contracts with deduction schedules (which are applied when performance is inadequate) are commonly used for this category of contract.

On the other hand, when acquiring supplies, engineering or unique services including studies, reports, and analyses, or R&D efforts**,** performance-based specifications must avoid over-specifying the Government's contractual requirements. The goal is to limit the involvement of Government employees and to provide contractors maximum flexibility in meeting the Government's actual needs. As long as the Government's need for an item is defined well enough to be capable of fulfillment, how to fulfill that need is entrusted to the contractor. Fixed-price or cost reimbursement contracts, including cost and/or performance incentives, with either objective incentives or award fees, may be appropriate for this category of contract.

IMPLEMENTATION: NASA plans to implement PBC wherever it makes sense, including contracts for services, hardware, and R&D. All new contracts will be considered for suitability to PBC. Existing contracts will be reformed to PBC only if a significant cost savings can be realized and the ongoing mission is not adversely affected. A NASAwide PBC awareness program has been conducted to explain the PBC initiative to Government and contractor employees at both the senior and working level. The awareness program was conducted through Center visits by a multidisciplinary Headquarters team, and was supplemented by videoteleconferences and videocassettes.

MEASUREMENT: NASA has pledged to measure savings realized from PBC. Savings are expected to be realized from eliminating unnecessary efforts, reduced contract costs, and reduced costs associated with Government surveillance. Additionally, NASA plans to measure progress in the implementation of PBC throughout the Agency. Progress will be measured quarterly, beginning with data from the second quarter of FY 1996.

RESPONSIBILITIES TO THE PBC INITIATIVE BY OFFICE/FUNCTIONAL AREA:
Administrator: Support and promote.
Chief Engineer: Coordinate all activities, ensure success.
Chief Financial Officer: Measure and report savings.
Associate Administrator for Management Systems and Facilities: Lead the effort to convert cost reimbursement facilities maintenance contracts to fixed price, performance-based wherever both feasible and practical, and monitor progress.
Associate Administrator for Safety and Mission Assurance: Coordinate surveillance policy development, and develop training for integrated surveillance of contractor performance.
Associate Administrator for Procurement: Provide support to the Chief Engineer. Provide team leadership to all other offices/functional areas. Monitor/measure overall progress; gather data as necessary. Focal point for dissemination of information.
Center Directors: Ensure: use of objective, measurable performance requirements and quality standards in developing statements of work; selection of contractors using performance as a consideration; and determination of contract type and incentives in accordance with a fair assessment of performance risk.